

RECEIVED

AUG 14 5 23 PM '00

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
JAMES D. YOUNG
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

1

2

Table of Contents

3 Autobiographical Sketchi

4 Purpose and Scope..... 1

5 1. The Postal Service's highway contractors provide a fundamentally different
6 service than that available in the private sector. 2

7 2. Mr. Nelson's characterizations regarding freight railroads and the Postal
8 Service are at odds with my experience and expectations. 5

Autobiographical Sketch

My name is James D. Young. My postal career began in the Chicago Main Post Office as a distribution clerk in November 1970. During the 30+ years since 1970, I have held various staff and management positions throughout Mail Processing, Transportation Operations, and Purchasing and Materials. Examples include the following:

Position Title	Facility
• Transportation Dock Clerk	Washington BMC
• Transportation Analyst	Washington BMC
• Transportation Specialist	Washington TMSC
• Senior, Transportation Specialist	Washington TMSC
• Transportation Specialist	Postal Headquarters
• Program Manager, Transportation Planning	Postal Headquarters
• Manager, Transportation Policies	Postal Headquarters
• Manager, National Mail Transportation Purchasing	Purchasing and Materials, Postal Headquarters

In my current position as Manager, National Mail Transportation Purchasing, my group has responsibility for the purchasing and contract management for approximately \$4 billion worth of transportation services annually. The modes of transportation include air, rail, highway (transport and delivery), boats, even mules and wheelbarrows that are used in specialized situations.

Purpose and Scope

The purpose of my testimony is to rebut certain representations regarding transportation purchasing made by witness Nelson (MPA-T-3). Specifically, I will address the following:

- 1) Nelson's comparisons of postal contract highway transportation to private sector highway are overly simplistic and do not comport with my experience.
- 2) Nelson's expectations regarding the use of freight rail service for mail transportation are overly optimistic.

1. The Postal Service's highway contractors provide a fundamentally different service than that available in the private sector.

Mr. Nelson (Tr. 28/13416 to 13417) finds that the Postal Service pays an "unnecessary" premium for highway transportation. This conclusion is based on his understanding that

"For the trucking industry, however, the security and processing requirements of the Postal Service are not unlike those of many private sector shippers of high-value, expedited and just-in-time shipments that are handled successfully every day." (Tr. 28/13416-13417.)

As James Orlando (Docket No. R84-1, USPS-RT-6) and I (Docket No. R97-1, USPS-RT-3) pointed out very clearly, such comparisons fail to take into account significant differences between our operations and private sector carriers. The Postal Service requires its highway transportation contractors to provide consistent, reliable and secure service everywhere, every day.

Precise scheduling of postal transportation is required in order to make efficient use of postal employees, who account for about 75 percent of postal operating costs. Our highway contract routes operate at all hours of the day and night, year-round. Our schedules include time-definite dispatch and arrival times. As I discussed in Docket No. R97-1 and repeat in detail below, these schedules are considerably more demanding than those generally used in the motor freight industry.

Another characteristic of our contract transportation system that differs from the private sector is our commitment to keep mail secure. Unlike many products carried by motor freight providers, mail is not replaceable. And we

1 must have confidence that it is kept secure at all times. For this reason, the
2 Postal Service requires security clearances for its contractors and contract
3 drivers.

4 The Postal Service makes extraordinary demands on our highway
5 contractors. In return, the Postal Service includes certain provisions in its
6 highway contracts to ensure the viability of the carriers we use. Our contracts
7 provide competitive compensation with assurances to the contractor that a
8 secure income will be forthcoming for the life of the contract. Included in these
9 assurances is our standard indemnification in the event the contract is canceled.
10 We also provide some protection against fuel and wage inflation. The resulting
11 symbiotic relationship between the Postal Service and its highway carriers
12 assures that we maintain the most economical, reliable and secure highway
13 transportation available. In my opinion, eliminating contract renewals in the
14 manner suggested by witness Nelson would be foolhardy and would endanger
15 the stability and reliability of postal contract highway transportation.

16 Mr. Nelson's comparison of postal highway transportation to private sector
17 providers working in a just-in-time inventory environment (Tr. 28/13417) is
18 equally flawed. As I discussed with counsel for McGraw Hill in the last rate case
19 (Docket No. R97-1, Tr. 35/18922-18924), this is a simplistic comparison that fails
20 to take into account the more stringent scheduling requirements the Postal
21 Service places on its contractors:

22 "Now, some people think about just in time,...a concept that's
23 been talked about a lot in the last few years and been implemented in
24 the private sector, but even in a just-in-time environment, based on

1 my knowledge of it anyway, we're not talking about an environment
2 where, if a truck is late 15 minutes, there's an irregularity issued to the
3 truck driver, which is what's true in the Postal Service's transportation
4 network.

5 Just in time typically refers to the fact that..."I'll get it to you
6 on Friday afternoon not later than five o'clock and you have that
7 window of time, but with our transportation network, every truck that's
8 moving moves on a time-definite schedule with the minor exception of
9 a plant load movement that might have a bit more flexibility in it
10 because the mailer may want that kind of flexibility.

11 But all our normal transportation, scheduled transportation,
12 moves on a time-definite schedule down to the minute, and so, I see
13 that as being very, very different from what you will see in the
14 transportation of freight in the private sector."

15
16 What I said then still holds today.

17 Mr. Nelson claims that Postal Service purchased highway transportation
18 costs are growing at rates much faster than the private sector. (Tr. 28/13407). I
19 disagree. On a cost per mile basis, our highway transportation costs are
20 relatively low, particularly in light of the demands we place on our contractors.
21 Our overall expenditures on highway transportation are increasing faster than the
22 rate of inflation, because we are buying more transportation service to meet the
23 needs of our customers, including the Periodicals mailers. Furthermore, given
24 the inherent differences in what is being purchased, I find broad comparisons to
25 private sector highway operators invalid. If Mr. Nelson were correct, private
26 sector less-than-truckload and just-in-time carriers would be actively seeking
27 postal contracts. As a rule, they are not.

28 I am satisfied that on a cost-per-mile basis the Postal Service is getting
29 good value for the dollar. This does not mean however that the Postal Service is
30 not seeking to reduce highway contract costs in other ways. My office is leading

1 a systematic review of all high cost-per-mile highway contracts. It is my
2 understanding that this effort is already reflected in the case as \$100 million in
3 transportation cost reductions included in the Breakthrough Productivity effort.

4 **2. Mr. Nelson's characterizations regarding freight railroads and the Postal**
5 **Service are at odds with my experience and expectations.**
6

7 Mr. Nelson's descriptions of the market for freight rail transportation are
8 unrealistic and simply do not comport with my understanding. He asserts that
9 freight rail rates for the traffic formerly moved by Conrail will fall by 10 percent.
10 (Tr. 28/13421.) While I certainly wish this were true, I believe that this is, at best,
11 wishful thinking. Ongoing negotiations between the Postal Service and the
12 Conrail-successor railroads give no indication of an impending decline in freight
13 rail rates. In fact, rates generally, and as a result of fuel price increases, have
14 gone up.

15 I also disagree with Mr. Nelson (Tr. 28/13421) that other freight railroads
16 are likely to give the Postal Service volume discounts for mail transportation. I
17 believe the Postal Service would have to shift considerable volumes to the freight
18 railroads as a prerequisite for such volume discounts. Given the relatively poor
19 service received from many freight railroads, further dependence on rail freight
20 carriers would not be satisfactory to our customers, and accordingly is not
21 expected in the foreseeable future.

22 Mr. Nelson disagrees with the Postal Service's expectations, expressed in
23 response to MPA/USPS-31b, regarding freight rail transportation:

1 "The cost of transportation typically used to transport products
2 moving on rail is likely to increase...The ontime performance provided by
3 rail carriers has declined and this has necessitated a transfer of volumes
4 from rail to higher cost HCR contracts." (Tr. 21/8934)
5
6 Mr. Nelson expects these problems to "dissipate by the Test Year, removing any
7 need to convert freight rail traffic to highway. (Tr. 28/13422.) The recent
8 experience of the Postal Service with the freight railroads has been quite
9 disappointing. Service is slow and inconsistent in many areas of the country.
10 Whether this is caused by mergers and acquisitions, or other systemic problems
11 (such as equipment shortages or trackage problems), I see no reason to
12 disagree with the characterization made the Postal Service in response to
13 MPA/USPS-31b. I am not optimistic that the Postal Service can increase its
14 dependence on the freight railroads unless dramatic steps are taken to improve
15 the quality of service. Our customers would simply not tolerate the poor service
16 that would result.